LETTER FROM THE AUDIT COMMITTEE

To the members of ASL Marine Holdings Ltd.

Dear Shareholders,

As you are aware, the Singapore offshore industry continues to be tested and challenged by the massive fall in demand for shipbuilding and shiprepair services. As previously noted, the speed and depth at which the conditions have deteriorated, have taken many industry professionals by surprise. Given the interlinked nature of the industry, issues faced by some players will ultimately affect even better off players. When debtors take longer than usual to pay, companies with viable businesses (such as ASL) often suffer.

Last year, the Audit Committee took an active oversight role with respect to the restructuring of the Group's debts. We are pleased to note that a restructuring involving a rights issue, a club deal, re-profiling, new facilities and deal with the bondholders has been completed. We thank management, the finance team, the banks, bondholders, shareholders and our consultant for the sterling effort.

Whilst the restructuring has provided much needed headroom space, ASL and the industry continue to face tough and very tough conditions. This is evident by the fact that of the $71.7 million loss, 50% of the loss or $35.9 million arose from impairment losses, which in turn were largely due to falling value of vessels held as fixed assets and inventories. A further $18.4 million or about 26% was due to provision on receivables. In other words 76% of the loss was essentially due to factors the Company had little or no control over.

You will note in the Independent Auditor's Report a paragraph highlighting material uncertainty related to going concern and Key Audit Matters. We would like to explain what they are and what additional work the Audit Committee undertook itself and required management to undertake.

Material uncertainty related to going concern

The Audit Committee notes that ASL had commenced the drawdown of the 5 year club term loan facility from DBS Bank Ltd, United Overseas Bank Limited and Oversea-Chinese Banking Corporation Limited (the "Lenders") in the current financial year. The 5 year club term loan facility requires ASL to comply with certain covenants. As at 30 June 2017, the Group had met all the covenants imposed except one. As a result, the aforementioned 5 year loan technically becomes due and payable.

Consequently, the Independent Auditors report included a paragraph highlighting material uncertainty related to going concern. In this case, the Independent Auditor is warning that ASL will be insolvent if the banks demand their monies back within the next 12 months and, if the Group became insolvent, then the values as shown in the financial statement may not be realizable.

Whilst auditors' reports including material uncertainty related to going concern appears repeatedly amongst companies in our industry, the Audit Committee has taken it seriously. We have examined the reason for the breach of the covenant, we have concurred that such a breach could not have been avoided, we have looked at the projected monthly cashflows of the Group, we have asked for and received assurances from management and we have reviewed the letter from the Lenders confirming that "the Lenders hereby waive, for one instance only, the breach of the covenant" and that "the Lenders have no intention to (i) direct the Facility Agent to issue a Default Declaration … or (ii) in respect of the Breach, cancel or require an immediate repayment of the Facility for the period of 12 months from 4 October 2017".

Key Audit Matters

Under the new reporting guidelines, our Independent Auditor is required to include in their report all Key Audit Matters. Key Audit Matters are matters which the Independent Auditor believes are the most significant areas that arose relating to the financial statements and the audit. These matters have been discussed in the Annual Report but in layman terms and in brief they are:

a. Project Revenue Recognition. We recognise projects on a percentage of completion method in the shipbuilding and shiprepair segments. Meaning the Group estimates what the probable profit and then recognises it as construction progresses. The danger is that if the project cannot be completed, or if completed not to the satisfaction of the buyer or if we get the profit projection wrong and so forth, then the profit being recognised will also be wrong. Management presents in spreadsheets all the contracts and all the computations at every meeting of the Audit Committee. The Audit Committee compares the computations against budget, prior papers presented, undertakes other reviews and questions management.

b. Impairment of vessels, receivables and goodwill. The Audit Committee recognises that in the current environment: the value of vessels have and can fall; the Group may not be paid monies it is owed; and that the value of our dredge engineering business may not be as valuable as it previously was. The Audit Committee asked for and received, valuation reports of the vessels, debt collection reports, aging of receivables reports and projected cashflows of our dredge engineering business report. In the event that these reports show the value of vessels, receivables or goodwill being lower than the carrying amount in our books, an impairment is made.

This letter is not meant to be complete and you are invited to please read the Annual Report for full details. This letter is our attempt to let you the shareholder and other stakeholders know, in non-technical terms, the more significant issues that the Audit Committee has considered, the work we have done and the actions we have taken.

We thank you for your attention.

Christopher Chong, Chairman
Tan Sek Khee, Member
Andre Yeap, Member